

Message Text

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PAGE 01 STATE 051842

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FM SECSTATE WASHDC

TO AMEMBASSY BANGKOK PRIORITY

AMCONSUL HONG KONG

AMEMBASSY TOKYO

AMEMBASSY KUALA LUMPUR

AMEMBASSY MANILA

AMEMBASSY SEOUL

AMEMBASSY SINGAPORE

AMEMBASSY TAIPEI

USLO PEKING

C O N F I D E N T I A L STATE 051842

E.O. 11652: GDS

TAGS: ETRD, TH, HK, JA, MY, RP, KS, SN, TW, CH

SUBJECT: PRC COTTON CONTRACT CANCELLATION

1. TEXT OF MARCH 6 WASHINGTON POST ARTICLE HEADLINED
"PEKING CANCELS ORDER FOR COTTON" TRANSMITTED SEPTTEL.

2. POST ARTICLE REFERRED TO WHAT IS CALLED A "BUY-BACK"
BY THE TRADE. US SHIPPER INVOLVED STATES PRC PAID (A)
DIFFERENCE BETWEEN CURRENT MARKET PRICE AND CONTRACT PRICE
AND (B) CARRYING CHARGES IN US DOLLARS. SHIPPER INVOLVED
SAID HE WAS DELIGHTED WITH DEAL.

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PAGE 02 STATE 051842

3. FYI: SUCH BUY-BACKS HAVE ALSO OCCURRED IN A NUMBER OF

INSTANCES IN JAPAN AND OTHER EAST ASIAN COUNTRIES, BUT THE AMOUNTS OF COTTON INVOLVED HAVE BEEN MUCH SMALLER. IF THE SHIPPER HAD ACCEPTED LESS THAN THE DIFFERENCE BETWEEN CURRENT MARKET PRICE AND CONTRACT PRICE OR WAIVED CARRYING CHARGES, THIS WOULD HAVE BEEN A RENEGOTIATED BUY-BACK, AND COULD BE CONSIDERED COMPARABLE IN MANY WAYS TO A RENEGOTIATION OF CONTRACT PRICE. IN THE PRESENT INSTANCE INVOLVING THE PRC, WE ESTIMATE THE DIFFERENCE BETWEEN THE CONTRACTUAL PRICE AND THE CURRENT MARKET PRICE WOULD BE ABOUT \$15 TO 20 MILLION. DESPITE SHIPPER'S ASSURANCE THAT NO RENEGOTIATION OCCURRED, WE FIND IT SOMEWHAT SURPRISING THAT

CHINESE WOULD BE PREPARED TO PAY SUCH A LARGE SUM (EVEN ALLOWING FOR POSSIBLE CHINESE COUNTERCLAIMS WHICH--IN THE CASE OF COTTON--ARE PROBABLY NOT LARGE), BUT HAVE NO BASIS TO DOUBT SHIPPER'S WORD. END FYI

4. IF POST IS QUESTIONED BY HOST GOVERNMENT OR NEWS MEDIA, IT SHOULD BE MADE CLEAR THAT THE "BUY-BACK" OPTION IS ALWAYS OPEN TO ANY MILL PROVIDED THAT NO "RENEGOTIATION" OCCURS. TO REPEAT, THIS MEANS THAT DIFFERENCE BETWEEN MARKET PRICE AND CONTRACT PRICE AS WELL AS CARRYING CHARGES ARE PAID BY PURCHASER, AND PAYMENT IS PROMPT AND IN DOLLARS.

5. STATUS OF US-COTTON SALES TO PRC (FOR PEKING AND HONG KONG): USDA'S EXPORT SALES REPORT, ISSUED MARCH 6, REFLECTS RECENT NOTIFICATIONS BY US SHIPPERS OF PRC CONTRACT CANCELLATIONS TOTALLING 233,000 BALES. SMALL SHIPMENTS TO PRC ARE CONTINUING, HOWEVER; APPROXIMATELY 24,000 BALES WERE SHIPPED LAST WEEK, AND THERE ARE OUTSTANDING SALES COMMITMENTS FOR ABOUT 200,000 BALES, ALTHOUGH THE CHINESE ACTION CASTS SOME DOUBT ON THE PROSPECTS FOR THE REMAINDER OF THE COTTON. INGERSOLL

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